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TAGS: [ECON](#) [OVIP](#) [ETRD](#) [PGOV](#) [PREL](#) [PE](#)
SUBJECT: TREASURY SECRETARY PAULSON MEETS WITH PERU'S
PRESIDENT GARCIA ON TRADE, PERU'S ECONOMY AND THE REGION

Classified By: AMBASSADOR J. CURTIS STRUBLE, REASONS 1.4 (b) AND (d)

¶1. (C) SUMMARY. President Garcia received Treasury Secretary Henry Paulson March 20 for a discussion of the Peruvian economy, regional developments and his upcoming visit to Washington. Secretary Paulson reaffirmed the Administration and President Bush's determination to secure passage by Congress of the Peru Trade Promotion Agreement (PTPA). Acting upon the President's instruction, Secretary Paulson offered President Garcia an April 23 date for his visit with President Bush in Washington, which Garcia accepted. President Garcia praised President Bush's efforts to raise the profile of U.S. relations with the Western Hemisphere. He told the Secretary Peru's hopes were high for the PTPA, and that passage of the accord was important to send a message to South America in favor of trade-led growth and democracy. Garcia was pleased with Secretary Paulson's praise of his management of the Peruvian economy, which has seen low inflation and close to 8% growth this year. Both discussed regional efforts to spread the benefits of this growth to the poor. Secretary Paulson offered his support for the PTPA on the Hill as well as his willingness to work with Peru on opening up the financial services sector and spreading access to capital to SMEs through more competition. END SUMMARY

¶2. (C) President Garcia received Treasury Secretary Henry M. Paulson on March 20 in Lima. President Garcia was accompanied by Foreign Minister Jose Antonio Garcia Belaunde. Secretary Paulson was accompanied by Ambassador Struble, Treasury Assistant Secretary Clay Lowrey and Deputy Assistant Secretary Nancy Lee. The Secretary met separately with

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Minister of Economy and Finance Luis Carranza. He also met with leading businessmen, politicians and journalists to discuss poverty reduction, a small-group of Peruvian

micro-finance providers and small entrepreneurs and engaged in a dialogue with 200 business students at the Pontificio Universidad Catolica.

13. (C) Following an exchange of greetings, President Garcia praised President Bush's decision to raise the profile of U.S. relations with Western Hemisphere neighbors. Secretary Paulson said that he would spend a significant amount of his time in the region pushing measures such as business facilitation and educational improvements that move the benefits of growth further down the population.

GARCIA VISIT TO WASHINGTON IN APRIL

14. (C) The Secretary said that President Bush looks forward to meeting with Garcia in Washington and had asked the Secretary to determine whether April 23 would be a convenient

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date to get together. President Garcia said it is a perfect date because it coincides with the anniversary of Cervantes, death: it is a good day to talk about how to free South America of impractical political leaders and their schemes.

15. (C) Garcia said he has a great deal of hope that the U.S. Congress will approve the Peru Trade Promotion Agreement (PTPA) despite certain concerns on the part of Ways and Means Committee Chairman Rangel and other Democrats. Secretary Paulson agreed though it would not be easy. He said it would be his top priority, adding that he had spoken with Chairman Rangel and others in the last few weeks. &We have to get this done,8 the Secretary concluded.

PTPA IS MESSAGE TO SOUTH AMERICA

16. (C) President Garcia stated that the PTPA is important for growth but is equally important to communicate a message to South America. Garcia characterized the situation in South America as a competition. Venezuela is using its oil and oil income to sell its model. Peru believes in investment and trade led growth. The PTPA, he said, will help Peru win this competition. Secretary Paulson agreed, while noting the challenge presented by growing protectionist sentiment in the United States. President Bush is committed to the PTPA, he said, and while no trade agreement is ever easy in Congress, they always seem to get through.

17. (C) The Secretary congratulated Garcia on his country's strong economic performance and its improved World Bank rankings on facilitation of small business start ups. President Garcia noted his own satisfaction with Peru's 7 to 9 percent growth rate, one percent inflation rate, and strong growth in private investment. &We have a solid economic structure,8 Garcia said, &We just need to speed it up. For me as the leader of a popular party, it is important to show that growth is accompanied by social progress.8

18. (C) President Garcia observed that the single greatest boost the U.S. could give Peru is to offer its opinion of how the country is doing economically. Garcia noted that the U.S. Treasury is broadly respected and its views carry a lot of weight. &If you like what you see,8 the President added, &please say so as it will strengthen the psychology and confidence of investors.8

SOCIAL PROGRESS, SMALL BUSINESSES

19. (C) Secretary Paulson agreed with Garcia that social progress was key. He said he would be talking with Finance Minister Carranza and others about how the U.S. can work with International Financial Institutions to push the benefits of growth down to the poor. The Secretary highlighted the importance of focusing on infrastructure, education and small/medium enterprises (SMEs). Secretary Paulson recalled an observation he had made the night before to the Prime Minister and others; it is easier to identify problems than

to identify solutions. The United States wants to identify good policies. The Treasury Department is focused on the problem of markets, getting capital to small businesses and infrastructure.

¶10. (C) President Garcia said he recently changed the banking regulator because financial markets in Peru are very closed. The country has free trade in goods but not in financial products, Garcia complained, and the only way to get credit to small businesses is to get more players in the system. Secretary Paulson said that this is a big theme for him

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whether in China or elsewhere. Competition in financial services has a multiplier effect on the economy; savers get better returns and more capital is put behind ideas. Closing off the sector hurts the whole economy. The situation in Latin America is particularly difficult, he said, because no major financial institution has yet come up with a business model to bring financial services to poor people; solving that need is key.

LACK OF TITLE, LACK OF CAPITAL

¶11. (C) President Garcia said that this problem falls to the state as well as to financial institutions. He cited the poor, s lack of title to their property as an example. Peru has an aggressive two-year program to issue property titles, he said, complemented by a program to make credit available to SMEs. If the financial services market is opened more it will spread availability.

¶12. (C) Paulson said that he liked how President Garcia was thinking; SMEs are the engine of growth in every country. Garcia said that he expects a big impact in 1 to 2 years. He added that the GOP has planned to offer export services to SMEs to complement the PTPA as part of economist Hernando De Soto, s &Internal Free Trade Agreement8 program. Otherwise, he warned, only big business will benefit from the opportunity. Secretary Paulson praised the idea of an SME assistance program noting that PTPA can help move SMEs into formality but many will need help competing globally. Pushing top line growth downward is a problem everywhere, he said, though without strong growth no one benefits. The Secretary noted the problem that a widening gap in incomes

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had created in the United States. Only in the last year had the average worker felt real growth in wages.

Because of that lag, many average workers wonder if trade is good for them. The issue is really not trade but technology; unskilled workers have trouble growing their wages as fast as the global economy.

¶13. (C) President Garcia said that a defect of parliaments everywhere is that they respond quickly with a short-term mentality to the concerns of constituents. Touching on a mention of China, Garcia, ever a student of history, said that the United States showed intelligence 100 years ago when it opposed international policies that limited China, s growth. Secretary Paulson agreed, saying he wished more members of the U.S. Congress understood that.

APPLAUDING THE U.S. VISION FOR THE FUTURE

¶14. (C) From time to time, Garcia said, the U.S. has a great vision for the future. FDR, s Good Neighbor Policy and JFK, s Alliance for Progress had been such moments. Peru sought to promote growth hand-in-hand with the United States and saw the proposal for a Free Trade Area of the Americas (FTAA) in that way. Taking a jab at Brazilian opposition to the FTAA, Garcia said that Peru is a small country and can, t play both sides at once; Peru has to be orthodox. He predicted that FTAs with the U.S. will be a defining event in South American history. They will show in just a few years what kind of approach produces solid results.

PERU: WE WANT A STRONG LONG-TERM FRIENDSHIP

¶15. (C) South America has three serious countries, Garcia said: Chile, Colombia (although it is beset with political problems) and now Peru, which wants to join the group. Unfortunately, he said, Chavez has a toehold in Ecuador and appears to have scared Argentina. Peru can show that the Chavista path is uselessly confrontational.

¶16. (C) Peru desires to weld a strong, long term political friendship with the U.S., Garcia said. &We won,t hold back) if you are our friend we should act like it. If Ecuador doesn,t want the base in Manta, we will offer one here to fight drugs and to show that Chavez is wrong.8 Garcia added that he thinks governments like that of Venezuela inevitably lead to international terrorism, just as was the case with Libya for 20 years. Secretary Paulson ended the meeting by saying there was no doubt in his mind that Peru is an important friend of the United States and that it is important Garcia,s government be successful for its demonstration effect in the region.

COMMENT

¶17. (C) Secretary Paulson's visit was timely and served to strengthen support for an increasingly strong bilateral relationship. The visit, and Secretary Paulson's optimism, helped reassure Peruvian worries over the fate of the PTPA in Congress. Coming a month after the release of Peru's spectacular macro-economic figures for 2006, the Treasury Secretary's commendation on Garcia's stewardship of the

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economy was music to the President's ears, but also provided a boost in confidence to local markets. The visit highlighted a common interest in the challenges of poverty reduction and trade-led growth, where a measure of success in Peru would be a positive signal to the rest of the region.

¶18. (U) Secretary Paulson's party cleared this message.
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